

Executive Summary

The past quarter (January – March, 2007) witnessed important developments and a new direction for the people of Iraq and the international community. On January 10, the President announced the New Way Forward to accelerate Iraq's transition. This was followed by the announcement of new leaders of MNF-I and the Embassy. The United States continues to shift its focus from large reconstruction projects to capacity development and technical assistance programs that increase the ability of the Government of Iraq (GOI) to manage its own reconstruction and development efforts. U.S. assistance programs are already helping the GOI to improve its ability to plan fully and execute its capital budget, increase production of essential services in vital areas, such as electricity and water, and improve governance at the national and provincial levels.

Economic Activity – Building the Iraqi Economy

The GOI has taken significant steps to improve its economy, despite security concerns continuing to restrain Iraq's economic growth. There are tangible signs that Iraqis are committed to taking the lead on reconstruction and doing their part to advance economic reform.

In February 2007, the Iraqi Cabinet approved a framework hydrocarbon law that provides the structure and principles for foreign investment in Iraq's energy sector. The next step is for the Council of Representatives to consider this proposed law. This is an important first step, and the GOI is still working on three companion pieces of legislation addressing revenue sharing, creation of a national oil company and reorganization of the Iraqi Ministry of Oil.

Recent developments with the International Compact with Iraq (ICI or Compact) provide clear signs that Iraq is assuming increasing responsibility for its own economic reconstruction and development. The ICI provides a means for the international community to help Iraq reform its main economic sectors (e.g., oil, electricity and agriculture), as well as establish and develop the laws and institutions needed to combat corruption, ensure good governance and protect human rights. On March 16, 2007, Compact documents were finalized and presented to the international community in New York. UN Secretary General Ban Ki-Moon urged representatives from over 90 countries to back the Compact. Iraq is ready for the next step; convening an international conference on May 3 to adopt and formally launch the Compact.

On March 10, 2007, Iraq convened a regional conference of 13 nations, including neighboring countries, as well as the United Nations, the Islamic Conference, the Arab League and permanent members of the UN Security Council. Conferees discussed common concerns regarding Iraq and agreed to form working groups on border security, energy and refugees. On May 4, there will be a follow-on conference.

Iraq continues to make progress toward World Trade Organization (WTO) membership. The Colombian WTO Ambassador agreed to chair Iraq's First Working Party Meeting, likely to take place in May. The GOI delegation attending the WTO negotiations recently completed a major four day seminar on accession procedures. WTO accession will be an important step toward gaining full confidence of international investors.

The USG is working with the Central Bank of Iraq to improve bank regulation and supervision and provide basic inter-bank electronic payment capacities. A \$5 million grant agreement is in place between the Iraqi Company for Bank Guarantees and USAID. Credit analysis training is being provided to encourage private banks to make cash flow-based loans to small and medium enterprises and create incentives for member banks to modernize their operations. As of March, five microfinance institutions had 16,345 loans worth \$19 million outstanding in 15 governorates.

In order to stimulate the Iraqi economy, and build local capacity to meet reconstruction needs, we are increasingly shifting reconstruction contracts to Iraqi firms. Over 2003 – 2006 only 23 percent of 17,420 USG-funded contracts were awarded to Iraqi contractors. Over the last year, there has been an increasing shift to Iraqi firms. A shift from large, multi-year contracts, implemented by international firms, to smaller contracts, is increasing opportunities for Iraqi firms. February 2007 data indicates that 76 percent of contract actions were awarded to Iraqi firms. This trend will put funds in the hands of local firms and reduce the cost of contract services, as local vendors can deliver services more economically than expatriates.

Baghdad Surge

The purpose of the New Way Forward's surge is to improve the security and living conditions for Iraqis in the capital city of Baghdad (and also Anbar province) in order to provide breathing room for the GOI to make progress on political issues, especially national reconciliation. The surge involves increases of both Iraqi security forces and U.S. military personnel, as well as increases in civilian presence in the Provincial Reconstruction Teams. As of late March, over 400 reconstruction projects, worth \$560 million, were underway in the Baghdad area; \$38 million of reconstruction efforts were completed in the six weeks before March 30. As of early April, 20,000 short term (70 percent) and long term (30 percent) jobs are generated daily in Baghdad and Anbar to support military and civilian efforts under the surge. U.S.-sponsored community stabilization activities include public works projects, vocational and business skills training, apprenticeships and micro grants. These activities are increasingly linked up to infrastructure and business district development efforts in those areas which, once stabilized, move into a phase of economic sustainment.

Government of Iraq Budget Execution

In February, the Iraqi Council of Representatives passed the 2007 Federal Budget. Budget execution is a high priority in 2007. The GOI has established a \$10 billion capital investment budget, of which \$2.4 billion is allocated to the provinces. Spending

these funds will provide services - bridges, water projects, schools, fuel delivery, electrical infrastructure and provincial development - for the benefit of all Iraqis. It will create jobs and boost economic opportunities for Iraqi firms.

To this end, the GOI formed a Budget Execution Task Force, led by a Deputy Prime Minister, the Finance Minister and the Planning Minister. This Task Force held a conference in early March at which officials from GOI ministries and provincial governments reviewed the new budget regulations and discussed concerns about procedural bottlenecks that impeded more efficient Iraqi spending in 2006.

The Ministry of Finance jump-started 2007 spending by ordering the release of ten percent of capital budgets following passage of the annual budget in February. The budget law also creates powerful incentives for ministries to execute their capital budgets or risk losing the funds. The Mission's stepped-up emphasis on Ministerial Capacity Development in Baghdad, and involvement of Provincial Reconstruction Teams on the local level, will assist with this execution.

Iraq Relief and Reconstruction Fund (IRRF) Program Summary

The \$21 billion IRRF investment made by the people of America in the future of Iraq is paying off in tangible results as the majority of reconstruction projects are now completed, or will be completed in the near future. The total of IRRF construction and non-construction projects completed since the fall of 2003 has reached 5,839; 199 IRRF projects were completed over the last quarter (January through March, 2007). As of March 31, there are 545 ongoing IRRF projects and training programs. Half will be completed between April and July 2007, with the vast majority completed by December 2007. IRRF funds are allocated to various primary sectors that include: electricity, transportation, water resources and sanitation, agriculture, health care and telecommunications. Key accomplishments include:

Sector	Progress to March 30, 2007
Electricity	<ul style="list-style-type: none"> • 2,120 MW new and restored generating capacity • 2,253 MW generating capacity maintained • Improved electricity distribution to 372,000 homes • Nationwide Hours of Power: 11 • Baghdad Hours of Power: 6
Oil	<ul style="list-style-type: none"> • 2.68 million barrels per day (MBPD) crude oil production capacity • 1.92 MBPD actual crude oil production • LPG production capacity of 1,700 tons per day • 1,400 tons per day actual LPG production
Water & Sewer	<ul style="list-style-type: none"> • 1.67 million cubic meters per day additional water treatment capacity

	<ul style="list-style-type: none"> • Benefiting an estimated 5.4 million Iraqis
Health	<ul style="list-style-type: none"> • 15 hospitals rehabilitation projects completed • 12 Primary Healthcare Centers completed • 123 Primary Healthcare Centers under contract.
Education	<ul style="list-style-type: none"> • 809 IRRF-funded schools providing classrooms for 323,000 students
Security & Justice	<ul style="list-style-type: none"> • 3 training academy projects • 92 fire station projects • 255 border forts
Transportation & Communications	<ul style="list-style-type: none"> • 36 village road projects • 95 railway station renovations • 14 aviation projects • 19 functioning berths at Port of Umm Qasr • “911” emergency dispatch system covering 12 million Iraqis in 15 cities

Of the \$20.9 billion IRRF originally appropriated, 99 percent is obligated. As of March 31, \$17.5 billion, or 87 percent, has been disbursed in payments for completed work. The majority of the \$3.4 billion undisbursed funds is concentrated in two infrastructure sectors – electricity and water resources. Virtually all of these funds are obligated, and each of these sectors has several important projects which will close out during the next few months.

Ministerial Capacity Development

The Coalition’s hard work, sacrifice and investment require the promise of effective Iraqi management of reconstruction efforts, now and in the future. To this end, Iraqi mid- and senior-level managers need ongoing training to hone their skills in the core functions of public administration, as well as specialized, technical assistance specific to their areas of operation and infrastructure. Nearly \$125 million in FY 2006 Supplemental funds is being dedicated directly to building capacity in the Iraqi ministries. The Ministerial Capacity Development program is taking a two-pronged approach in building the capacity of Iraq's cadre of public administrators. The effort is divided into short-term and mid- to long-term efforts. The Iraq Reconstruction Management Office (IRMO) is implementing programs focused on short-term foundations, and USAID is implementing mid- to long-term programs focused on sustaining skills.

IRMO’s \$60 million program enables ministries to provide immediate service to the Iraqi people. A significant effort targets the fiscal paralysis preventing ministries from providing services: establishing a procurement assistance office in the Ministry of Planning, a Budget Assistance Cell in the Deputy Prime Minister’s Office and adding Budget Formulation and Procurement (Purchasing) Modules to the Iraqi Financial Information System. An additional effort will address immediate capacity development

through legal reform and legislative procedures. Altogether these short-term programs provide urgent support for key GOI priorities, and will provide the improved budget execution that the GOI ministries need to meet the needs of the Iraqi people.

USAID's \$65 million program to date for National Capacity Development is fostering the establishment of a professional Iraqi civil service through an institutionalized, sustainable training system that is promoting modern management through public institutions. In coordination with others, this program is assisting in developing a standardized curriculum to instruct core capabilities in such areas as personnel management and administration, strategic planning/policy development, leadership/communications and information technology. The program provides support for key GOI priorities, assists in carrying out medium-term activities to improve and standardize public administration and helps invigorate training centers to provide sustainable human resource development. Additionally, the program is placing public management advisors in ten key ministries to provide ongoing technical assistance to improve the day-to-day operations within each ministry.

Provincial Reconstruction Teams (PRTs)

While we will continue to work closely with the central government in Baghdad, we are extending and expanding our reach beyond the International Zone to help local communities and leaders. The expanded PRT program brings together civilian and military experts to strengthen moderates, help Iraqi communities pursue reconciliation, and speed the transition to Iraqi self-reliance.

We are doubling the number of PRTs from ten to 20 and preparing to add up to 300 new personnel to the current 290 or so personnel already on the ground. The first phase of PRT expansion is soon to be complete, as the ten new interagency PRT core teams, 40 people in total, have arrived in Iraq. The State Department has assigned ten senior-level Team Leaders for these new PRTs. Each Team Leader is joined by a senior USAID development advisor, as well as a civil affairs officer and a bilingual, bicultural advisor from the Department of Defense. The ten new PRTs will be embedded in Brigade Combat Teams to increase support for our counter-insurgency strategy. We created the first specialized inter-agency PRT training program at the Foreign Service Institute.

Through both civilian and military resources, including foreign assistance and the Commanders' Emergency Response Program, PRTs will accelerate Iraqi self-sufficiency where we have made security gains by supporting moderates in provincial and local government, civil society and the business community. The next two phases of PRT expansion, will add specialized technical personnel to both new and existing PRTs. Based upon ground-up evaluations, we are recruiting city planners, rule of law experts and agri-business development experts, among others, to meet provincial and local needs.

PRTs will assist local Iraqi leaders to strengthen provincial capacity to govern effectively, especially in the area of budget execution, and to encourage reconciliation for the development of a moderate political base at the local level. PRTs will continue to

play a leading role in coordinating U.S. programs, including Iraqi Provincial Reconstruction Development Councils and USAID's local governance, community stabilization, economic development and community action programs. We intend to complete all three phases of PRT expansion by the end of the calendar year. This will depend, however, both on the level of funding appropriated in the FY 2007 supplemental and circumstances on the ground.

Coordinator for Economic Transition in Iraq

In order to see Iraqi resources put to work in reconstruction, and to assist in the coordination of the many U.S. government resources focusing on Iraq's critical economic transition, the Department of State, at the President's instruction, established a new office, the Coordinator for Economic Transition in Iraq (CETI). This office began operations in early February, with the arrival of Ambassador Timothy Carney as the Coordinator, assisted by a small staff. CETI works closely with Iraqi officials to help ensure that Iraq's considerable resources are brought to bear on the task of rebuilding Iraq; coordinates all relevant elements of the Embassy, USAID Mission and IRMO to help bring about a smooth transition from USG and other external assistance to full Iraqi self-reliance; and works closely with MNF-I to ensure Iraq's economic transition plans complement the joint security strategy.